

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6027

BILL NUMBER: HB 1564

NOTE PREPARED: Jan 16, 2009

BILL AMENDED:

SUBJECT: Prosecuting Attorneys' Purchase of Service Credit.

FIRST AUTHOR: Rep. Grubb

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill allows a participant in the Prosecuting Attorneys Retirement Fund (PARF) to purchase service credit, at full actuarial cost, for service performed while a member in another public employees' retirement fund. It authorizes the fund to accept rollover distributions from certain types of retirement plans or accounts to purchase the service credit.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Purchase of Service Credit:* This provision can result in increased future payouts from the PARF in certain situations, as described below.

The bill provides that the purchase of service credits by a participant in the PARF must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the PARF may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wants to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current PARF service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal

impact to the PARF. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the PARF.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

As an example, for an individual who has six years of service in PERF and six years in PARF and thus not vested in either plan, this proposal would allow such an individual to be immediately vested after purchasing the six years of service. This service is not accounted for in the purchase price. However, it should be pointed out that participants (e.g., judges) purchasing service under these circumstances is exceedingly rare. In almost every case, participants purchase the service immediately (or within a year) before retiring after they are already vested, even though it is to their advantage to purchase the service at a younger age and at a lower salary.

For an individual not vested in PERF, the present value of the PERF benefit is calculated as though the participant is 100% vested in PERF. Despite the calculation, PERF is not out anything as a result of this technique. This is because the funding received from the employer for the PERF benefit is usually greater than the present value calculation. If a PERF employer had been contributing 6.5% of the present value of the participant's salary for six years, this amount will usually exceed the present value of the PERF benefit earned based on those six years.

ASA Balance- Whatever ASA balance a participant has in PERF may be used to offset the cost to purchase service if the participant so desires, but the participant forfeits whatever amount is used for the offset.

State Agencies Affected PERF as administrators of PARF.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keene, actuary for PERF and PARF, 317-576-1508.

Fiscal Analyst: James Sperlik, 317- 232-9866.

DEFINITIONS

Actuarial Cost - A cost is characterized as actuarial if it derived through the use of present values. An actuarial cost is often used to associate the costs of benefits under a retirement system with the approximate time the benefits are earned.

Actuarial Present Value - The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

Contribution - The transfer of funds or property by either an employer or an employee to an employee benefit plan.

Cost-of-Living Adjustment (COLA) - An across-the-board increase (decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value— The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.